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CENTRAL INTELLIGENCE AGENCY
WASHINGTON, D.C. 20505

CIA/ OER/ S-08112-75

15 September 1975

MEMORANDUM FOR:

Strategic Warning Staff
Pentagon

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SUBJECT : China's New policy on Industrial
Location

Attached is information on an apparent policy
change in China which we understand is of interest
to you. Any further questions should be directed
to:

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NGA Review Completed.

Office of Economic Research

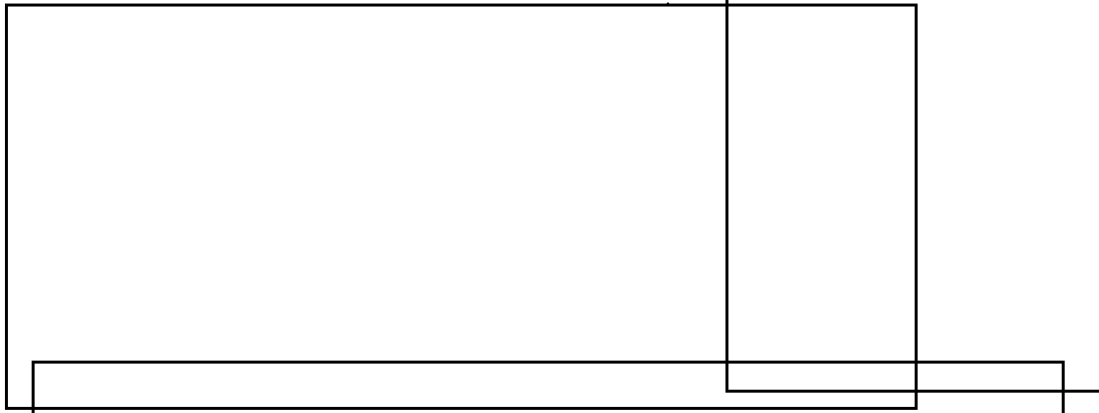
Attachment:
As stated

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China's New Policy on Industrial Location

Peking has apparently changed its policy on industrial location and for the past few years appears to prefer that major new industrial installations be built on flat, accessible terrain rather than in remote mountainous areas. During the 1960s many industrial sites were selected on the basis of strategic considerations.

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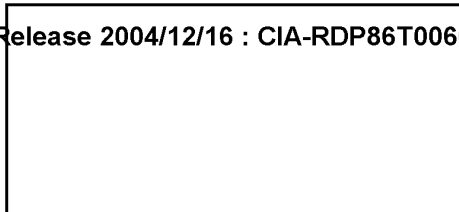
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the old policy was a costly error that has slowed industrial development.

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the location of the Peking petroleum complex in mountainous terrain southwest of the capital caused difficulty in construction and greatly reduced the general efficiency of the plant. This

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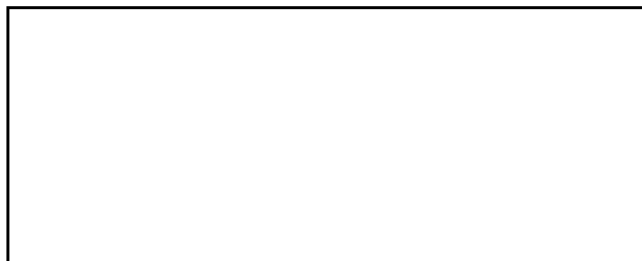


installation was built between 1966 and 1970 and is China's largest integrated complex of petroleum-related facilities.

The most impressive example of the apparently defunct industrial dispersal policy is the new motor vehicle plant at Shih-yen-chen in Hupeh Province. This plant is the largest manufacturing installation in the country, consisting of more than 20 separate areas dispersed in mountain valleys. The total area of the plant site exceeds 50 square miles. The complex recently entered production after more than six years of construction. The dispersed layout of the plant delayed construction and reduced the plant's efficiency.

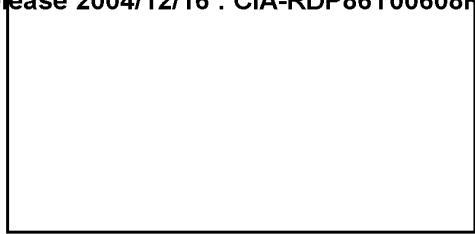
China's newest integrated iron and steel plant is another example of the high-cost industrial dispersal policy of the 1960s. This complex, located on the Szechuan-Yunnan border, was started in 1960 and includes power plants, a cement plant, large areas of housing, and many support facilities. The construction site was created by levelling a large area of hilly terrain. Much of the construction materials and heavy machinery were hauled to the plant site by truck prior to the completion of a

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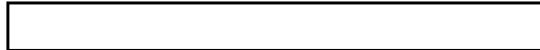
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rail line to serve the area. It would have been cheaper to expand existent iron and steel plants elsewhere.

The new policy apparently recognizes that the construction of facilities in more accessible areas near cities cuts the time and cost of construction, improves access to transportation facilities, and, in many cases, eliminates the need to build new housing and support facilities. Thus, new urea fertilizer and petrochemical plants near the dispersed Peking petroleum complex are under construction on a flat plain near the complex.

Several other major plants



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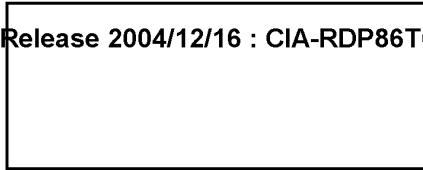
were built on flat land in easily accessible areas. The only major drawback of the policy is the withdrawal of arable land from agricultural use.

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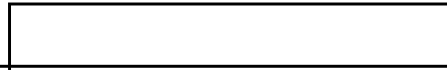
The period of strategic influence on industrial location closely corresponds to the 1965-1971 increase in military procurement. The expansion of both military production and construction of high-cost industrial plants during the late 1960s probably placed an extra burden on China's developing economy. Since the abortive



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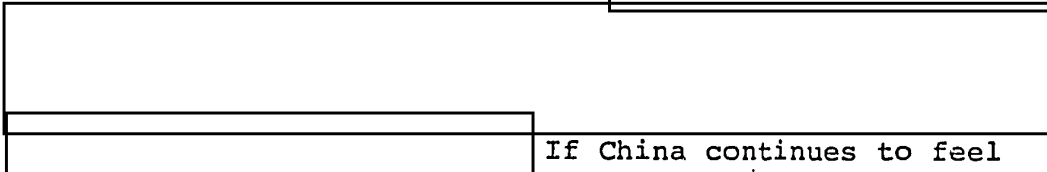


coup lead by Lin Piao in 1971, military procurement has dropped off sharply. Lin headed the military establishment from 1950^{to 7} to late in 1971 and the policy of dispersing industry was almost certainly his. Moreover, China may also have considered its nuclear arsenal a sufficient deterrent, so the industrial dispersal policy is probably no longer considered necessary.



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If China continues to feel

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comfortable with its defense posture and its progress in foreign affairs, we would expect that industrial location will have economic efficiency, rather than defense, as the prevailing consideration.



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